ACQUISITION AND DISPOSAL BY CCC OF SURPLUS FARM PRODUCTS

The Commodity Credit Corporation, through its price-support programs, acquires stocks of various farm products. These stocks in the aggregate are referred to as the "price-support inventory." The price-support inventory is large, having on June 30, 1960, a cost value of $7,222,927,000.

A large inventory creates several problems. It has a depressing effect on market prices; it increases possibility of waste; and it runs up heavy storage charges. Consequently, CCC keeps looking for useful outlets through which it can dispose of its excess stocks.

Commodities from the price-support inventory are disposed of in various ways. Some are sold in the United States for dollars, and, in export channels, for dollars and foreign currencies. Some are used, under a "payment-in-kind" program, to stimulate commercial exports. Some are bartered for strategic and critical materials produced abroad. Substantial quantities of food commodities are transferred to other agencies, on either a reimbursable or non-reimbursable basis, for eventual donation to school lunch programs, Veterans Administration and Armed Force hospitals, needy Indians on reservations, and, through approved welfare organizations, to other needy persons in the United States and abroad.

HOW THE PRICE-SUPPORT INVENTORY IS ACQUIRED

The price-support inventory is a byproduct, so to speak, of the programs undertaken by CCC to support agricultural prices. In carrying on the price-support programs, CCC acquires its inventory in two principal ways:

1. Through the "takeover" of commodities pledged as collateral for price-support loans.

Price-support loans to producers are usually "nonrecourse." With this type of loan, producers are not obligated to make good any decline in the market price of the commodity they have put up as collateral. If the quality and quantity of the commodity have been maintained, producers can deliver it to CCC and thereby discharge their obligations in full. When market prices are declining, and it does not pay producers to pay off their loans in order to redeem commodities for sale in the market, the bulk of loan stocks are usually delivered to CCC. The wheat, corn, cotton and other commodities acquired by the Corporation in this way go into storage and become part of the price-support inventory.

2. Purchases -- either from processors or handlers, or from producers in connection with purchase agreements.

Prices of some commodities are supported through purchases. For example, prices of butterfat and of milk for manufacturing use are supported through purchases of butter, cheese, and nonfat dry milk solids from processors and handlers. Commodities and products purchased also go into the price-support inventory.

CCC also enters into purchase agreements with producers of certain commodities, principally grains. In the purchase agreement, CCC commits itself to buy from the producer at a stipulated future date, at the producer's option, not more than an agreed-upon quantity of a commodity at the support price. Commodities purchased under this method of support likewise end up in the price-support inventory.

Type of Commodities in the Inventory

Some people visualize the price-support inventory as a big grocery store -- stocked with fresh fruits and vegetables, canned goods, fresh meats, preserves, and other staples. This idea is far from the reality.

First, part of the inventory value is represented by commodities, such as cotton, naval stores, and strategic materials, that are not foods at all. Second, many of the "food" commodities, such as wheat, corn, oats, and rye, are stored in raw, bulk form and require considerable processing before they can be used for food. About the only food commodities that can be put to immediate consumer use without processing are dairy products, dry edible beans, and milled rice. Even these foods are generally packed in large commercial-size containers -- not suitable for individual consumer distribution.

Major items in the inventory of CCC as of June 30, 1960 were:

Wheat	1,195,368,923	bushels	$ 3,049,680,303
Corn	1,158,237,487	bushels	2,063,668,491
Cotton, Upland	5,016,542	bales	889,623,616
Grain Sorghum	319,281,492	cwt.	832,575,205
Barley	71,050,747	bushels	84,943,120
Butter	105,356,859	pounds	61,939,646
Strategic Materials	xxx		52,641,515
Soybeans	20,380,264	bushels	45,915,522
Milk, Dried	299,886,173	pounds	42,200,445
Rice, Rough & Milled	6,588,465	cwt.	41,892,449
Peanuts, Shelled	103,762,247	pounds	16,813,670
Cotton, Extra Long Staple	44,106	bales	12,527,107
Oats	15,095,917	bushels	11,605,523
Other	xxx		16,900,340
			$ 7,222,926,952

("Other" items in inventory include cheese, dry edible beans, flaxseed, rye, linseed oil, farmers' stock peanuts, and tung oil, the largest of which was rye, with a cost value of $7,192,170.)

Location of the Inventory

Commodities making up the price-support inventory are stored in many different places. Wheat, for example, is stored in commercial elevators in producing areas and terminal markets, in CCC-owned bins, and even in idle Maritime Administration ships, which are providing storage for about 23 million

bushels in New York, Virginia, and the Pacific Northwest. Corn is stored largely in CCC-owned bins on "bin sites" in the Corn Belt. Cotton is warehoused commercially, primarily in the South.

Part of the "Carryover" is in the CCC Inventory

Not all the commodities in the CCC inventory should be considered as true "surpluses." Part of the commodities represent stocks that normally would end up as "carryover" in the hands of producers and the trade. In recent years, the tendency has been for a larger proportion of total carryovers to be held by CCC, and private traders have been carrying smaller stocks than otherwise would be necessary.

Problems Created by a Large Price-Support Inventory

Supplies of some commodities, however, have been far above any foreseeable needs for carryovers or emergency reserves. As mentioned earlier, these big surplus supplies create a number of serious problems. A heavy supply of a commodity, either in Government or private hands, puts strong downward pressure on prices. Large stocks always pose the danger of waste, through deterioration or spoilage, especially in the case of perishable commodities. Big supplies mean heavy storage costs, with the cost of storing CCC inventory stocks running over a million dollars a day in 1960. Finally, disposal of large inventory holdings, because of changes in price levels, deterioration, sales at special export prices, and donations, can result in substantial financial losses to CCC.

WHY DISPOSAL OUTLETS ARE HARD TO DEVELOP

Occasional letters to the Department of Agriculture ask, "If you have too much wheat in your inventory, why don't you copy the practice of any well-managed department store -- hold a 'bargain sale' and clean out your surplus?"

Domestic Sale Problems

Domestic "bargain sales" of storable CCC-owned commodities are prohibited by Section 407 of the Agricultural Act of 1949, a provision which directs CCC to establish prices, terms, and conditions that will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the current crop.

A more specific directive in Section 407 provides that CCC shall not in general sell any storable commodity in the domestic market at less than 5 percent above the current support price for the commodity, plus reasonable carrying charges. The objective of this provision is obvious. If CCC sold storable commodities at prices below the support levels, such sales would tend to drive market prices down. This, in turn, would result in more price support activity -- with more commodities coming into the Corporation's price-support inventory. Then there would have to be still more sales from inventory, and the wheel would go around and around.

There are exceptions to the general restrictions on sales. The Section 407 minimum sales price limit does not apply to exports, nor to domestic sales of commodity stocks which have deteriorated or are in danger of deterioration. There are several other limited exceptions to cover special situations, including unusual end-use needs.

Export Sale Problems

Although export sales are not subject to price restrictions, there are nevertheless obstacles to selling surpluses abroad. Some of these are:

1. Importing countries have stepped up their agricultural production, thus causing a lower total world demand for U. S. farm products than in the years immediately following World War II.

2. Foreign peoples prefer their traditional foods. For example, rice is the staple food of some countries, and if rice is available at reasonable prices, these countries are not good customers for wheat.

3. Price competition is keen. To compete in "world" markets on even terms, exporters must be able to obtain surplus commodities in the United States at competitive prices. However, the pricing of CCC-owned surpluses for export sale must be done carefully to avoid damaging the economies of other exporting nations friendly to the United States.

DISPOSAL METHODS

Despite problems, CCC has been able to move very large volumes of its surplus holdings into useful channels of consumption, both at home and abroad. From July 1, 1953, through June 30, 1960, the cost value of CCC-owned commodities disposed of through various outlets was more than 20 billion dollars. The breakdown is as follows:

Domestic and export sales for dollars	$10,825,336,000
Sales for foreign currencies	2,192,376,000
Barter	1,935,107,000
Payment-in-kind export programs	796,861,000
Transfers and donations	4,385,426,000
Total	$20,135,106,000

Sales for dollars: As the disposal summary indicates, sales for dollars, both for domestic and export use, have constituted the biggest single outlet for CCC-owned surplus farm products.

Some domestic sales have been made at the so-called "formula" price -- that is, at 5 percent above the support price, plus carrying charges Also, some CCC-owned surpluses in danger of deterioration or spoilage have been sold domestically at less than cost.

However, of total sales for dollars, export outlets account for about 60 percent, on a cost value basis. Export sales usually are made at prices somewhat below domestic price levels, to permit American exporters to compete

in foreign markets on a more even basis with commodities produced in other countries.

To stimulate export sales for dollars, CCC sells some of its commodities on credit for periods up to 36 months.

CCC sales activities and certain other phases of the disposal program are coordinated and directed by the office of the General Sales Manager, Commodity Stabilization Service. Actual sales operations, however, are handled in large part by the various regional CSS commodity offices. The CSS commodity office in New Orleans is responsible for cotton and cottonseed sales; Cincinnati, for certain processed commodities, including dairy products; and Evanston, Ill., Minneapolis, Kansas City, Dallas, and Portland, Oreg., for other commodities, mainly grain and oilseeds. Sales by the commodity offices are made primarily through competitive bids on definite quantities and qualities.

Information on CCC-owned commodities available for sale is contained in a Monthly Sales List issued by CCC about the first of each month. The list, which varies from month to month as CCC's inventory position changes, helps buyers of CCC-owned commodities to negotiate sales. The list is being distributed to some 12,000 potential buyers.

Sales for foreign currencies under Public Law 480, Title I: Substantial quantities of surpluses are being sold abroad for foreign currencies under Title I, Public Law 480, as amended -- also cited as the Agricultural Trade Development and Assistance Act of 1954. By authorizing sales for foreign currencies, "Title I" enables the United States to overcome a big obstacle to agricultural export trade -- dollar shortages among importing nations.

Administration of Title I operations within the Department of Agriculture is a responsibility of the Foreign Agricultural Service (FAS)

Transactions under Title I require the following steps:

1. A foreign importing country enters into an agreement with the United States to purchase surplus agricultural commodities in this country and pay for them with foreign currencies.

2. The importing country applies to FAS for purchase authorizations providing for dollar financing of the commodity sales and specifying the conditions under which the financing will be done. When authorizations are issued, the importing country designates certain banks in its country and in the U. S. to participate in the program. CCC issues letters of commitment to the U. S. banks in the amounts requested by the importing country. Each letter of commitment names the foreign bank as well as the U. S. bank and constitutes commitment by CCC to reimburse the U. S. bank for payments made under letters of credit for the account of the foreign bank.

3. A commercial importer in the importing country buys U. S. surpluses from a U. S. exporter. The importer pays for the surpluses in foreign currencies at the foreign bank. The American exporter, however, receives his payment in dollars from the U. S. bank.

4. The U. S. bank is reimbursed by CCC. Foreign currency which paid for the transaction is deposited by the foreign bank to the account of the U. S. in the foreign country. The foreign currency is used abroad by the U. S. to buy strategic and critical materials; develop new markets for U. S. farm products; procure military equipment, materials, facilities, and services for the common defense; pay U. S. obligations abroad; and finance international educational exchange activities. The currency is also used to finance the purchase of goods or services for other countries, and is loaned or granted to importing countries for economic development purposes.

5. To the extent CCC is not otherwise reimbursed by Government agencies utilizing foreign currencies accruing under Title I transactions, CCC is

reimbursed through appropriations for commodities disposed of and costs incurred under such transactions.

(Section 402, Mutual Security Act of 1954, as amended, provides that some of the funds appropriated for the mutual security program shall be used to finance the sale, for foreign currencies, of U. S surplus farm products, including surpluses from CCC stocks. Section 402 is administered by the International Cooperation Administration, to which CCC transfers some of its surpluses on a reimbursable basis.)

<u>Payment-in-kind</u>: U. S. prices of grain, cotton, and rice usually are higher than "world" prices. To make it possible for U. S. exporters to compete on even terms in foreign markets and thus move additional quantities of these commodities into consumption, the Department of Agriculture makes export payments amounting, per unit, to approximately the difference between the U.S. price and the world price. With certain exceptions, the Department uses CCC-owned commodities, not cash, in making payment to exporters. This so-called payment-in-kind program has two aims: (1) Drawing export shipments from commercial stocks, and (2) providing some continuing outlet for Corporation-owned stocks.

In the case of wheat, for example,the exporter purchases from regular commercial sources the wheat he expects to ship. On this wheat, he receives as an export payment a certificate redeemable only in Corporation-owned wheat at seaboard location. The value of the certificate is based on the number of bushels of wheat exported and the export payment rate per bushel in effect on the date of the export sale. This payment-in-kind procedure is used for all wheat export payments, including shipments under the International Wheat Agreement (If the wheat is shipped in the form of flour, however, the exporter -- after presenting proof of export and meeting other terms and condi-

tions of the program -- collects the export payment from the Corporation in the form of a Government check. Export payments on flour shipped under the International Wheat Agreement also are made on a cash basis.)

In the case of feed grains, export payment rates are established through competitive bids of exporters, who submit bids for an export payment rate in cents per bushel, together with a statement of quantities to be exported.

The export payment on rice is based on the quantity exported times an export rate which is announced weekly.

Payment-in-kind certificates for feed grains are redeemable in feed grains. Certificates for rice are redeemable in feed grains or rough rice.

Cotton exporters who register with the New Orleans CSS Commodity Office export sales of upland cotton from commercial stocks earn a "dollar credit," at the currently established rate per pound, which may be used to "buy" cotton from CCC stocks.

Barter: Since 1949 large quantities of surplus CCC-owned farm products have been "swapped" for needed strategic and other materials produced abroad. In October 1960, the following commodities were eligible for barter: Cotton, tobacco, milled rice, wheat, corn, barley, rye, sorghum grain, butter, and nonfat dry milk. The list is subject to change from time to time.

Foreign-produced materials acquired through barter divide into (A) strategic materials for stockpiling and (B) other materials for U. S. Government agencies.

The list of materials which may be acquired under barter transactions for transfer to the supplemental stockpile varies from time to time. Among those which have been acceptable at different recent periods are: crude aluminum oxide abrasives, antimony, asbestos, bauxite, beryl, bismuth,

cadmium, chromite, columbite, cryolite, diamonds and bort, ferrochrome, fluorspar, lead, manganese, mercury, mica, nickel, palladium, quartz crystals, ruthenium, selenium, silicon carbide, tantalite, tin, and zinc.

"Other" materials acquired for U. S. Government agencies, such as fertilizer and raw silk, have been transferred to the agencies with reimbursement to CCC.

In order to avoid disruption of world prices and replacement of cash sales by barter, the barter program limits the countries to which agricultural commodities may be exported.

Barter transactions are carried on through regular commercial trade channels by private U. S. firms. Only U. S. firms may be prime contractors in a barter transaction.

Barter contracts generally run from periods of a few months up to 2 years, during which the contractor both delivers materials and exports agricultural commodities received in exchange. Contractors are required to furnish cash or irrevocable letters of credit for the total value of any farm products received in advance of material deliveries.

All agricultural commodities must be exported to approved friendly countries. The origin of strategic materials for stockpiling -- as well as other materials, goods or equipment -- is also limited to friendly countries.

If ocean transportation is involved, at least 50 percent of materials being acquired under the transaction must move in U. S. flag ships. This provision, however, does not apply to the export of bartered surplus farm products.

Transfers and donations: Over a fifth of CCC's surpluses -- primarily food commodities -- have been donated to recipients in the United States and foreign countries. Some of the donations have been handled by other Government agencies, and by the Department of Agriculture itself, with reimbursement to CCC. Substantial quantities of food from CCC stocks have been donated by other agencies, however, with no reimbursement to CCC.

The U. S. Department of Agriculture, through its Agricultural Marketing Service (AMS), distributes foods as follows to: --

1. Nonprofit lunch programs in schools of high school grade and under.

2. Needy Indians on reservations.

3. Charitable institutions serving needy persons, including hospitals, homes for the aging, and other types of institutions for the needy.

4. State and local public welfare agencies, for distribution to needy families.

5. Groups organized to provide relief for victims of drought, floods, and other natural disasters in the U. S.

6. Voluntary agencies distributing donated foods to needy people in various parts of the world.

In the case of donated foods distributed domestically, AMS arranges for and finances processing or packaging of the commodities, and pays transportation costs to central receiving locations in the States. In the States, the program is administered by State agencies operating under agreements with the U. S. Department of Agriculture. The State agencies are responsible for the certification of eligible recipients, within the broad standards of eligibility established by the Department under the controlling legislation. The State agencies order the commodities, which are delivered by the Department to central distribution points within the States. The State agencies also arrange for the receipt and storage of commodities and for their ultimate distribution to eligible recipients, including school children participating in school lunch programs.

Details of operation vary among the States. Many function through local public welfare authorities, who make the actual distribution to eligible recipients. Private welfare agencies may enter into the program as referral agencies and to assist in distributing the foods, as long as the public agency maintains responsibility for program operation.

Food commodities in excess of anticipated domestic disposition may be donated by the Agricultural Marketing Service to nonprofit voluntary agencies registered with the Committee on Voluntary Foreign Aid of the International Cooperation Administration (ICA), or other department or agency of the Federal Government and to intergovernmental organizations for use in the assistance of needy persons outside the United States. U. S. private welfare organizations taking part in the foreign distribution of surplus foods include American Friends of Austrian Children, Inc., American Friends' Service Committee, Inc., American Jewish Joint Distribution Committee, Inc., Cooperative for American Remittances to Everywhere, Inc. (CARE), Foster Parents' Plan for War Children, Inc., Hadassah, Inc., International Rescue Committee, Inc., Iran Foundation,Inc., Lutheran World Relief, Inc., Mennonite Central Committee, Inc., National Council of Young Israel, Save the Children Federation, Inc., Tolstoy Foundation, Inc., Unitarian Service Committee, Inc., United Lithuanian Relief Fund of America, Inc., United Ukranian American Relief Committee, Inc., War Relief Service--National Catholic Welfare Conference, Inc.

The International Cooperation Administration receives substantial quantities of surplus CCC-owned farm products for donation to (1) any nation friendly to the U.S. to meet famine or other urgent or extraordinary relief requirements, and (2) to friendly but needy populations regardless of the friendliness of their government.

International organizations, such as the United Nations Relief and Work Agency, have used relatively small amounts of dry edible beans and butter oil in special relief feeding operations.

Under various legislative authorities, CCC may (1) donate dairy products to the Veterans Administration for use in its hospitals, and to the Secretary of the Army, for use in Army, Navy, and Air Force rations, including hospital rations; (2) donate food commodities to Federal penal and correctional institutions for minors; and (3) make surplus commodities available for relief use in any part of the United States declared by the President to be an acute distress area because of unemployment or other economic cause in connection with any major disaster.

- - - - -